

Press Release

AISECT Limited

June 02, 2021



Rating Assigned

Total Facilities Rated*	Issuer Rating (IR)
Long Term Rating	ACUITE BBB+/ Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term Issuer Rating (IR) of '**ACUITE BBB+**' (**read as ACUITE triple B plus**) to AISECT Limited (AL). The outlook is '**Stable**'.

Rationale for rating assigned

The rating takes into account the established track record of operations and extensive experience of the promoter in the service industry and augmentation in the business risk profile of the company over the years. The rating also takes into account the healthy financial risk profile of the company and reputed nationalized banks acting as business correspondent partners for its financial inclusion services. The liquidity of the company have been adequate market by adequate net cash accruals generated by the company against no debt repayments. However, the revenues of the company are highly dependent upon commission income earned from kiosk banking services and services provided under government schemes.

About the Company

Bhopal based AISECT Limited (AL) was incorporated in 2006 by Mr. Siddharth Chaturvedi and Mr. Santosh Choubey. The company is majorly engaged in providing various services such as banking services, management services, general supplies, selling of educational books and also provides coaching and skill training to various aspirants. The company is a part of the AISECT group which is the country's leading social enterprise working in the areas of skill development, higher education and other technology based services.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of AL to arrive at this rating.

Key Rating Drivers

Strengths

- **Established operations with experience management and reputed business correspondent partners**

AL was established in 2006 as a public limited company by Mr. Santosh Choubey and Mr. Siddharth Chaturvedi who possess more than three decades of experience in the service industry. The company belongs to the AISECT group which was founded in 1985 in order to provide skill development, educational and training services in semi-urban and rural areas of the country. Apart from various diversified services provided by the company such as management services to institutions, coaching and training; AL act as a national business correspondent for reputed banks like State Bank of India (SBI), Bank of India (BOI) and Bank of Baroda (BOB) to provide banking services to the unbanked and under privileged population of this country through financial inclusion business model. The experienced of the promoters has benefit the company to maintain long term relationship with its business correspondent partners as well as various customers across the country over the years.

Acuité believes that AL will sustain its existing business profile on back of an established track record of operations and experienced management over the medium term.

- **Augmentation in scale of operations with healthy profitability over the years**

The revenue of the company improved significantly with a CAGR growth of 20.3 percent over FY18-21 (provisional) period. The increase in revenues over the years is on account of higher commission earned by the company led by increase in financial inclusion business. Further, the growth in revenues are also supported by increase in sale business of institution books and other study materials to the group institutions

and also to other institutions. However, the revenues marginally declined by ~1 percent y-o-y and stood at Rs.100.56 Cr. in FY21 (provisional) as against Rs.102.00 Cr. in FY20. The marginal decline in revenues was on account of dip in sale business of books as most of the institution activities were impacted by the covid-19 pandemic and choose to opt for online education. The profitability of the company has improved in FY21 (provisional) as market by increased in operating profit margin and net profit margin. The operating profit margin of the company improved to 9.53 percent in FY21 (provisional) as against 7.97 percent in FY20 majorly on decline in purchases of traded goods. Further, the company generated Profit after Tax (PAT) of Rs.6.02 Cr. in FY21 (provisional) against Rs.5.26 Cr. in FY20.

Acuité believes that the improvement in scale of operations and maintaining profitability over the medium term will remain a key rating sensitivity.

• **Healthy financial risk profile**

The financial risk profile of the company is healthy marked by healthy tangible net worth with no outstanding debt obligations. The tangible net worth of the company increased and stood at Rs.44.97 Cr. as on 31 March, 2021 (provisional) as against Rs.36.91 Cr. in the previous year. The increase in net worth is on account of accumulation of reserves during the same period. The management follows very conservative leverage policy as reflected by no debt outstanding of the company as on 31 March, 2021 (provisional). The total liabilities to tangible net worth (TOL/TNW) improved and stood at 0.40 times as on 31 March, 2021 (provisional) as against 0.78 times in the previous year.

Acuité believes that the financial risk profile of the company will remain healthy over the medium term on account of moderate growth in revenues and profitability with no debt outstanding.

Weaknesses

• **High dependence of commission income from banking and other services**

The revenues of the company are highly dependent on the commission income earned from kiosk banking services and other services provided under various government schemes. In FY21, around 80 percent of the revenues generated by the company are from commission from various services. Further, the kiosk banking services provided by the company are susceptible to banking policies and agreements. Any change on the same will likely to impact the kiosk banking services of the company. This apart, given that some portion of its revenues is derived from programmes under Government schemes, any change in the government can change such schemes which could impact the company's revenues generated from providing such services.

Rating Sensitivities

- Improvement in revenues while maintaining profitability margins
- Changes in various banking policies and government schemes

Material Covenants

None

Liquidity position: Adequate

The liquidity position of the company is adequate reflected by adequate net cash accruals against no maturing debt obligations. The net cash accruals of the company stood at Rs.7.91 Cr. in FY21 (provisional) against no debt obligations for the same period. The net cash accruals of the company are estimated to be in the range of Rs.7.97 – 10.07 Cr. during FY22-24 period compared to no debt obligations during the same period. The company maintains unencumbered cash and bank balance of Rs.18.73 Cr. and the current ratio stood healthy at 1.87 times as on 31 March, 2021 (provisional). Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals with no debt repayments over the medium term.

Outlook

Acuité believes that the company will maintain 'Stable' outlook in the medium term on account of the extensive experience of the promoters in the service industry. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of less-than-expected generation of cash accruals or stretch in its working capital cycle leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	100.56	102.00
PAT	Rs. Cr.	6.02	5.26
PAT Margin	(%)	5.99	5.15
Total Debt/Tangible Net Worth	Times	-	-
PBDIT/Interest	Times	64.44	53.05

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (Rs. Cr.)	Name of the Bank	Ratings/Outlook
Issuer Rating (IR)	Not Applicable	Not Applicable	Not Applicable	-	Not Applicable	ACUITE BBB+/Stable (Assigned)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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